

**SOUTH PARK COUNTY
SANITATION DISTRICT**

Independent Auditor's Reports, Management's
Discussion and Analysis and Basic
Financial Statements

For the Fiscal Year Ended June 30, 2010

**SOUTH PARK COUNTY SANITATION DISTRICT
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

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Board of Directors
South Park County Sanitation District
Santa Rosa, California

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying basic financial statements of South Park County Sanitation District (District), a component unit of the County of Sonoma, California, as of and for the fiscal year ended June 30, 2010, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of June 30, 2010, and the changes in its financial position and its cash flows for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have issued our report dated November 4, 2010 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis as listed in the table of contents is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Maclean Hini & O'Connell LLP

Certified Public Accountants

Sacramento, California

November 4, 2010

Management's Discussion and Analysis

**SOUTH PARK COUNTY SANITATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

As management of the South Park County Sanitation District (the District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2010. We encourage readers to consider the information presented here in conjunction with the District's financial statements (pages 11-13) and the accompanying notes to the financial statements (pages 14-24).

Reporting Entity

The District is managed by the Sonoma County Water Agency (Water Agency), which provides administration, engineering, operational and maintenance services. The District is governed by a Board of Directors, which is the County of Sonoma Board of Supervisors. The District is considered an integral part of the County of Sonoma's reporting entity, resulting in the District's financial statements being included in the County's Comprehensive Annual Financial Report.

Please refer to the definition of the reporting entity within the notes to the financial statements for additional detail.

Financial Highlights

Net Assets

The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$15,199,836 (*net assets*). Of this amount, \$6,709,570 (*unrestricted net assets*) may be used to meet the District's ongoing obligations to citizens and creditors.

Revenues and Capital Contributions

The District recognized total revenues, including capital contributions, of \$3,349,186 during fiscal year ended June 30, 2010. Of this amount, \$3,264,381 consists of flat charges and charges for services (operating revenues) and \$79,585 represented nonoperating revenues, consisting of investment earnings. The District also recognized \$5,220 in connection fees during the fiscal year.

Expenses

The District incurred expenses totaling \$2,367,492 during the fiscal year ended June 30, 2010. Of this amount \$2,268,115 represents operating expenses related to the collection, treatment, disposal, and reclamation of effluent, as well as administrative and general expenses. Nonoperating expenses totaled \$99,377, which is comprised of interest expense related to the District's long-term debt obligation and conservation program expenses.

Increase in Net Assets

The District recognized operating income of \$996,266 for fiscal year ended June 30, 2010, while recognizing an overall increase in net assets of \$981,694.

**SOUTH PARK COUNTY SANITATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's financial statements. The District's financial statements are comprised of three components: (1) management's discussion and analysis, (2) financial statements, and (3) notes to the basic financial statements.

Management's Discussion and Analysis

This section is intended to provide a narrative overview that users need to interpret the financial statements. Management's discussion and analysis also provides analysis of key data presented in the financial statements.

Financial Statements

The District is engaged only in business-type activities. The District accounts for its financial activities utilizing fund accounting, specifically enterprise fund accounting, to ensure and demonstrate compliance with finance-related legal requirements. An enterprise fund is a proprietary fund type used to report activities for which a fee is charged to external customers for goods or services provided. The focus of an enterprise fund is the determination of operating income, changes in net assets (or cost recovery), financial position, and cash flow. The financial statements presented are the *statement of net assets; the statement of revenues, expenses and changes in net assets; and the statement of cash flows*.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the basic financial statements can be found on pages 14-24.

Financial Analysis

Net assets may serve over time as a useful indicator of a District's financial position. In the case of the District, assets exceeded liabilities by \$15,199,836 at the close of the most recent fiscal year compared to net assets of \$14,218,142 as of June 30, 2009. The \$981,694 increase in net assets is due primarily to increased revenues received in flat charges combined with the District's focus on minimizing increases to its expenses.

A portion of the District's net assets (54.8% as of June 30, 2010 compared to 56.0% as of June 30, 2009) reflects its investment in capital assets (e.g., construction in progress and buildings and improvements), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

**SOUTH PARK COUNTY SANITATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

Condensed Statements of Net Assets

	June 30, 2009	June 30, 2010	Percentage Change
Current and other assets	\$ 7,598,996	\$ 8,206,825	8.0%
Capital assets	10,688,258	10,944,835	2.4%
Total Assets	18,287,254	19,151,660	4.7%
Current liabilities	150,067	141,694	-5.6%
Noncurrent liabilities	3,919,045	3,810,130	-2.8%
Total Liabilities	4,069,112	3,951,824	-2.9%
Invested in capital assets, net of related debt	7,962,798	8,323,290	4.5%
Restricted for debt service	141,166	166,976	18.3%
Restricted for conservation	22,421	-	-100.0%
Unrestricted	6,091,757	6,709,570	10.1%
Total Net Assets	\$ 14,218,142	\$ 15,199,836	6.9%

A portion of the District's net assets, \$166,976 as of June 30, 2010, represent resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets of \$6,709,570 as of June 30, 2010, may be used to meet the District's ongoing obligations to citizens and creditors. The District reported positive balances in all categories of net assets.

**SOUTH PARK COUNTY SANITATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

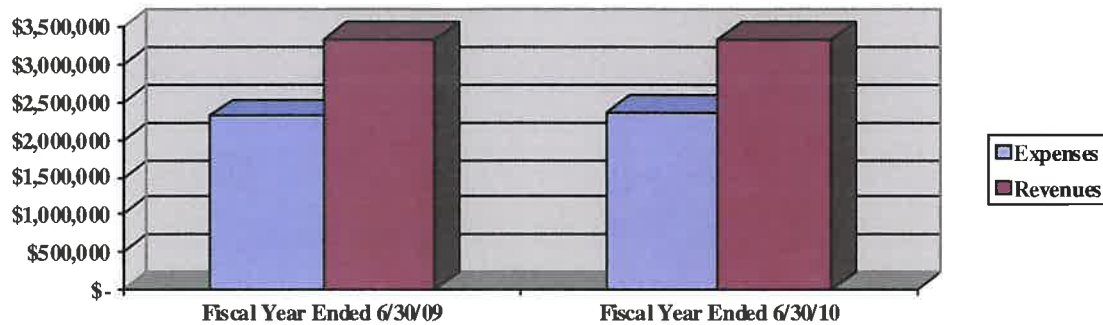
Condensed Statements of Changes in Net Assets

	Fiscal Year Ended		Percentage
	June 30, 2009	June 30, 2010	Change
Revenues			
Operating revenues	\$ 3,116,645	\$ 3,264,381	4.7%
Nonoperating revenues	204,784	79,585	-61.1%
Total revenues	3,321,429	3,343,966	0.7%
Expenses			
Services and supplies	1,957,778	2,000,201	2.2%
Fiscal agent fees and legal services	10,246	9,822	-4.1%
Depreciation and amortization	255,243	258,092	1.1%
Interest expense	87,332	59,744	-
Conservation program	1,079	39,633	3573.1%
Total expenses	2,311,678	2,367,492	2.4%
Income before contributions	1,009,751	976,474	-3.3%
Capital contributions - intergovernmental	2,400	-	-
Capital contributions - connection fees	1,600	5,220	226.3%
Increase in net assets	1,013,751	981,694	-3.2%
Net assets, beginning of year	13,204,391	14,218,142	7.7%
Net assets, end of year	\$ 14,218,142	\$ 15,199,836	6.9%

The District's net assets increased by \$981,694 during the fiscal year ended June 30, 2010 compared to an increase of \$1,013,751 during the fiscal year ended June 30, 2009. Overall total revenues recognized by the District increased 0.7% from the fiscal year ended June 30, 2009. Total expenses incurred during the fiscal year ended June 30, 2010 increased 2.4% primarily as a result of an increase in services and supplies expenses related to payments to the City of Santa Rosa for wastewater treatment services.

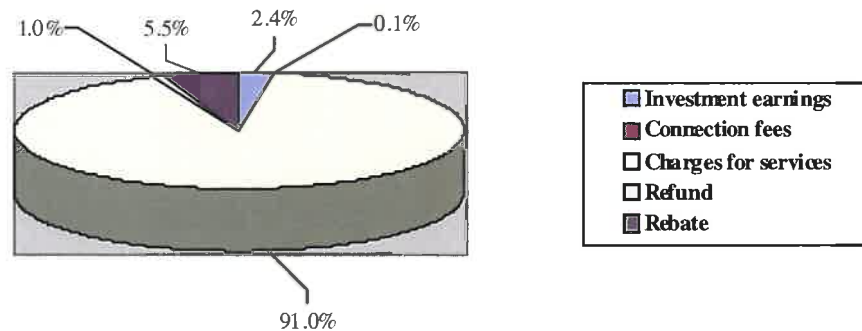
SOUTH PARK COUNTY SANITATION DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) FOR THE FISCAL YEAR ENDED JUNE 30, 2010

Expenses and Revenues



Total revenues, including capital contributions, of the District for the fiscal year ended June 30, 2010 totaled \$3,349,186 representing an increase of \$23,757 from the preceding fiscal year revenues of \$3,325,429. This increase is primarily the result of a refund of prior year overhead and equipment charges received from the Sonoma County Water Agency totaling \$33,020.

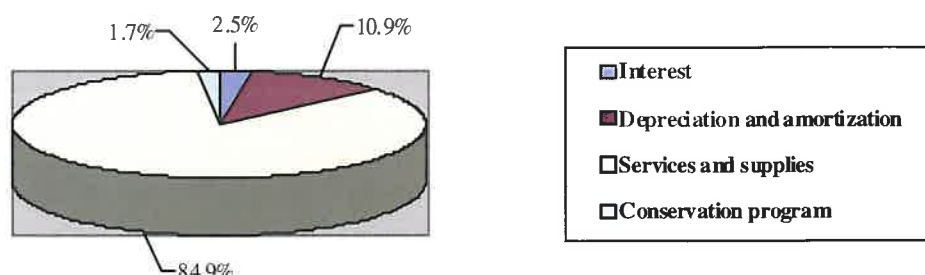
Revenues by Source



As previously mentioned, the District recognized \$3,349,186 of revenue during the fiscal year ended June 30, 2010. Of this amount \$3,047,338 or 91.0%, was generated through charges for services. Charges for services represent sewer services charges to cover operations and maintenance costs, which are initially collected through the permitting process, then subsequently through the tax rolls. The District received a rebate from the City of Santa Rosa for sanitation services totaling \$184,023 or 5.5% of revenues. Investment earnings represent 2.4% of revenues and consist of earnings on pooled cash held with the Sonoma County Treasurer. A refund received from the Sonoma County Water Agency for prior year overhead and equipment charges accounted for 1.0% of revenues. Connection fees, which accounted for 0.1% of the annual revenue, are also collected through the permitting process.

**SOUTH PARK COUNTY SANITATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

Expenses by Function



Expenses for the District for fiscal year ended June 30, 2010 totaled \$2,367,492. Costs associated with the collection, treatment, and disposal of effluent represent 84.9% of the District's costs. The next largest functional area is depreciation and amortization expense of \$258,092 (10.9%) of total expenses. Interest expense totaling \$59,744 (2.5%) represents the cost of meeting current debt service on the District's long-term obligations. Conservation program expenses totaling \$39,633 are primarily comprised of providing rebates associated with the District's water conservation program.

Capital Asset and Debt Administration

Capital assets

The District's investment in capital assets as of June 30, 2010, amounts to \$10,944,835 (net of accumulated depreciation). In addition to reporting the District's investment in capital assets including land, buildings and systems, improvements, and construction in progress, the District is now reporting its investment in intangible assets as required by Governmental Accounting Standards Board (GASB) Statement No. 51 – *Accounting and Financial Reporting for Intangible Assets*. Intangible assets for the District would normally include easements (both permanent and temporary), and development, acquisition, and implementation costs related to computer software. Software is included only when the aggregate costs exceed, or are anticipated to exceed, a threshold of \$100,000. The amount reported as land as of June 30, 2009 was reclassified as intangible assets to comply with GASB Statement No. 51 as the amounts are representative of easements.

Major capital asset activity during the current fiscal year related to the Moorland Avenue Collection System Replacement.

South Park County Sanitation District's Capital Assets

	June 30, 2009	June 30, 2010	Percentage Change
Construction in progress	\$ 1,559,512	\$ 657,915	-57.8%
Intangible assets	71,574	71,859	0.4%
Buildings and improvements	12,563,740	13,975,344	11.2%
Accumulated depreciation	(3,506,568)	(3,760,283)	7.2%
Total	\$ 10,688,258	\$ 10,944,835	2.4%

**SOUTH PARK COUNTY SANITATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

Additional information on the District's capital assets can be found in Note E on page 21 of this report.

Long-term Obligations

As of June 30, 2010, the District had a total of \$2,621,545 in outstanding revenue bonds.

South Park County Sanitation District's Outstanding Long-Term debt

	June 30, 2009	June 30, 2010	Percentage Change
Revenue bonds	\$ 2,725,460	\$ 2,621,545	-3.8%

The District's total debt decreased by \$103,915 during the current fiscal year. The decrease in revenue bonds is due to the annual principal payment (\$115,000) on the outstanding revenue bonds along with amortization of the original issue premium (\$3,252) and the deferred amount on refunding of \$14,337.

Additional information on the District's current and long-term debt can be found in Note F on page 22 of this report.

Next Year's Budget and Rates

Budgeted gross expenses for the District for the fiscal year ending June 30, 2011 have increased by \$3,776,873 (30.8%) for a total of \$15,953,028. The major component of the increase in budgeted expenses is related to capital projects in the District's construction fund. The District is anticipating a \$4.4 million loan from the State for the Gloria/Meekland Collection System project and is also budgeting \$3.8 million for the Blackwell Tract project. Following is a comparison of the final budget for the fiscal year ended June 30, 2010 and the proposed budgeted expenses for the District for the fiscal year ending June 30, 2011.

	Fiscal Year Ended June 30, 2010	Fiscal Year Ending June 30, 2011	Increase (Decrease)	Percentage Change
Operations	\$ 8,240,642	\$ 7,233,778	\$ (1,006,864)	-12.2%
Debt service - revenue bonds	152,629	148,978	(3,651)	-2.4%
Construction	3,782,884	8,570,272	4,787,388	126.6%
Total	\$ 12,176,155	\$ 15,953,028	\$ 3,776,873	31.0%

Budgeted expenses for the fiscal year ended June 30, 2010 differ in several instances from the budgeted expenses presented in the management discussion and analysis issued for the period ending June 30, 2009. These variances are due to Board approved budgetary adjustments made subsequent to the publication of the audited basic financial statements for the fiscal year ended June 30, 2009.

The sewer service fee rates were increased for the fiscal year ending June 30, 2011 budget year by 2.0%

**SOUTH PARK COUNTY SANITATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

Next Year's Budget and Rates (Continued)

The following tables show the sanitation services rates and equivalent single family dwellings for the District.

	Fiscal Year Ended June 30, 2010	Fiscal Year Ending June 30, 2011	Percentage Change
Rate per Equivalent Single-Family Dwelling	\$ 763	\$ 778	2.0%
Number of Equivalent Single-Family Dwellings	4,013	4,018	0.1%

Request for Additional Information

This financial report is designed to provide a general overview of the District's finances for all those with an interest. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Sonoma County Auditor-Controller-Treasurer-Tax Collector's Office, ATTN. Fiscal Division, 585 Fiscal Drive, Room 100, Santa Rosa, CA 95403.

SOUTH PARK COUNTY SANITATION DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2010

Assets

Current assets:

Cash and investments	\$ 7,613,585
Accounts receivable	321,327
Restricted cash and investments:	
Revenue bond fund	197,522
Total current assets	8,132,434

Noncurrent assets:

Other assets	74,391
Capital assets:	
Construction in progress	657,915
Intangible assets	71,859
Buildings and improvements	13,975,344
Less accumulated depreciation	(3,760,283)
Total capital assets, net	10,944,835
Total noncurrent assets	11,019,226
Total assets	19,151,660

Liabilities

Current liabilities:

Accounts payable and accrued expenses	2,233
Current liabilities payable from restricted assets:	
Revenue bonds payable	108,915
Accrued interest payable	30,546
Total current liabilities payable from restricted assets	139,461

Noncurrent liabilities:

Pollution remediation	1,297,500
Revenue bonds payable	2,512,630
Total noncurrent liabilities	3,810,130
Total liabilities	3,951,824

Net Assets

Invested in capital assets, net of related debt	8,323,290
Restricted for debt service	166,976
Unrestricted	6,709,570
Total net assets	\$ 15,199,836

The accompanying notes are an integral part of these financial statements.

**SOUTH PARK COUNTY SANITATION DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

Operating revenues	
Flat charges	\$ 3,015,056
Charges for services	32,282
Refund from Sonoma County Water Agency	33,020
Other	184,023
Total operating revenues	3,264,381
Operating expenses	
Services and supplies	2,000,201
Fiscal agent fees and legal services	9,822
Depreciation and amortization	258,092
Total operating expenses	2,268,115
Operating income	996,266
Nonoperating revenues (expenses)	
Investment earnings	79,585
Interest expense	(59,744)
Conservation program	(39,633)
Total nonoperating expenses, net	(19,792)
Income before capital contributions	976,474
Capital contribution - connection fees	5,220
Increase in net assets	981,694
Net assets - beginning of year	14,218,142
Net assets - end of year	\$ 15,199,836

The accompanying notes are an integral part of these financial statements.

**SOUTH PARK COUNTY SANITATION DISTRICT
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from customers	\$ 3,053,015
Refund from Sonoma County Water Agency	33,020
Other receipts	184,123
Payments to Sonoma County Water Agency	(93,322)
Payments to suppliers	(1,915,134)
Conservation program outlays	(39,633)
Net cash provided by operating activities	1,222,069

CASH FLOWS FROM CAPITAL AND RELATED

FINANCING ACTIVITIES

Purchase of capital assets	(449,982)
Principal payments on revenue bonds payable	(115,000)
Interest paid on revenue bonds payable	(123,910)
Connection fees	5,220
Net cash used by capital and related financing activities	(683,672)

CASH FLOWS FROM INVESTING ACTIVITIES

Interest received on pooled cash and investments	79,585
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Net increase in cash and cash equivalents 617,982

Cash and cash equivalents - beginning of year	7,193,125
Cash and cash equivalents - end of year	\$ 7,811,107

Reconciliation to the statement of net assets

Cash and investments	\$ 7,613,585
Restricted cash and investments	197,522
Cash and cash equivalents	\$ 7,811,107

RECONCILIATION OF OPERATING INCOME TO NET CASH

PROVIDED BY OPERATING ACTIVITIES:

Operating income	\$ 996,266
Adjustments to reconcile operating income to net cash provided by operating activities:	
Conservation program outlays	(39,633)
Depreciation and amortization	258,092
Change in assets and liabilities:	
Increase in accounts receivable	5,777
Increase in accounts payable and accrued expenses	1,567
Net cash provided by operating activities	\$ 1,222,069

NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES

Capital assets acquired through accounts payable	\$ 666
Capitalized interest	74,388

The accompanying notes are an integral part of these financial statements.

**SOUTH PARK COUNTY SANITATION DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

Note A. Defining the Financial Reporting Entity

The South Park County Sanitation District (the District) is managed by the Sonoma County Water Agency (the Water Agency), which provides engineering, administration, operational, and maintenance services. The District is responsible for maintaining and operating the local sanitation collection systems and pump stations. The District has an ordinance defining policies, including user fees.

An agreement for transfer of responsibility to the City of Santa Rosa of the collection system operation and maintenance, and subsequent dissolution of the District, was finalized on February 27, 1996 and amended February 1998, June 2000, April 1, 2004 and is anticipated to be amended in 2010. Under this agreement and the pending amendment, (1) the District will be dissolved in October, 2011, (2) the City of Santa Rosa shall acquire the unused capacity of the District, and (3) the District will upgrade the collection system to meet the standards of the City of Santa Rosa. The agreement requires the District to replace, slip-line, or repair 41,610 feet of the collection system and upgrade the Todd Road lift station before the City of Santa Rosa assumes responsibility for operation and maintenance of the collection system.

Component Unit Reporting

The District is governed by a Board of Directors (Board) which is the County of Sonoma (County) Board of Supervisors. The exercise of this oversight responsibility causes the District to be an integral part of the County's reporting entity. Therefore, the District's financial statements are also included in the County's Comprehensive Annual Financial Report.

Note B. Summary of Significant Accounting Policies

The District conforms to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. A summary of significant accounting policies is included below.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The District uses a proprietary (enterprise) fund to account for its activities. An enterprise fund may be used to report any activity for which a fee is charged to external users for goods or services. Enterprise funds are required for any activity whose principal external revenue sources meet any of the following criteria: (1) issued debt is backed solely by fees and charges, (2) the cost of providing services for any activity (including capital costs such as depreciation or debt service) must be legally recovered through fees or charges, or (3) if the government's policy is to establish activity fees or charges designed to recover the cost of providing services.

**SOUTH PARK COUNTY SANITATION DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

Note B. Summary of Significant Accounting Policies (Continued)

The District's financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. All assets and liabilities associated with the operation of the District are included on the statement of net assets. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The District has elected under Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, to apply all applicable GASB pronouncements as well as any applicable pronouncement of the Financial Accounting Standards Board or any Accounting Research Bulletins issued on or before November 30, 1989 unless those pronouncements conflict with or contradict GASB pronouncements. The GASB periodically updates its codification of existing Governmental Accounting and Financial Reporting Standards which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units. Governments have the option of following private-sector guidance issued subsequent to November 30, 1989, as such, the District has elected not to follow private-sector guidance subsequent to November 30, 1989.

Proprietary funds distinguish operating from nonoperating revenues and expenses. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District are flat charges and charges for services. Operating expenses for the District include expenses relating to the collection, treatment, disposal, and reclamation of effluent as well as administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

Cash and Investments

The District's cash and investments are pooled with the Sonoma County Treasurer (Treasurer). The Treasurer also acts as a disbursing agent for the District. The fair value of the investments in the pool is determined quarterly. Realized and unrealized gains or losses and interest earned on pooled investments are allocated quarterly to the District based on its respective average daily balance for that quarter in the County Treasury Investment Pool (the Treasury Pool), an external investment pool.

**SOUTH PARK COUNTY SANITATION DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

Note B. Summary of Significant Accounting Policies (Continued)

Cash and Investments (Continued)

The District applies the provisions of GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*, which requires governmental entities to report certain investments at fair value in the statement of net assets and recognize the corresponding change in the fair value of investments in the year in which the change occurred. In accordance with GASB Statement No. 31, the District has stated its investment in the Treasury Pool at estimated fair value.

The District applies the provisions of GASB Statement No. 40, *Deposit and Investment Risk Disclosures* – an amendment to GASB Statement No. 3, which requires governmental entities to provide proper disclosures on common deposit and investment risks related to credit risk, interest rate risk and custodial credit risk.

For purposes of the statement of cash flows, the District considers all pooled cash and investments as cash and cash equivalents because the Treasury Pool is used as a demand deposit account.

Accounts Receivable

Accounts receivable consists of uncollected fees for sanitation services and flat charges. Flat charges are established annually by the Board and are billed through the County's property tax system. The District does not record an allowance for uncollectible receivables as it deems all receivables as fully collectible.

Other Assets

Other assets represent unamortized deferred bond issuance costs of \$74,391 as of June 30, 2010. These costs are amortized using the straight-line method over the term of the outstanding bonds.

Restricted Assets

Restricted assets represent cash and investments maintained in accordance with bond resolutions and formal actions of the Board or by agreement, for the purpose of funding certain debt service payments, and improvements and extensions to the collection systems.

Capital Assets

Capital assets are stated at cost or estimated historical cost. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Depreciation has been provided, excluding land, using the straight-line method over estimated useful lives ranging from 3 to 50 years. Useful lives of machinery and equipment are estimated to be 3 to 15 years. Buildings and improvements are estimated to have useful lives ranging from 30 to 50 years.

**SOUTH PARK COUNTY SANITATION DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

Note B. Summary of Significant Accounting Policies (Continued)

Capital Assets (Continued)

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed.

Intangible Assets

Intangible assets are stated at cost or estimated historical cost. Intangible assets for the District consist of temporary and permanent easements. Temporary easements are defined by the District as any easement acquired during the course of a project that, by agreement, will expire after a certain period of time after the completion of the project, and has an estimated useful life in excess of 1 year. Temporary easements are amortized using the straight line method over the duration of the easement. Permanent easements, including dedicated easements, are stated at cost, estimated historical cost, or fair value and are not amortized.

Revenue Bond Premium and Deferred Amount on Refunding

Revenue bond premiums (premiums) are deferred and amortized using the straight-line method over the term of the outstanding bonds. Premiums increase the carrying value of the related debt. Deferred amount on refunding of revenue bonds, results from the difference between the carrying amount of the defeased/refunded debt and its reacquisition price. Deferred amounts on refunding are amortized over the remaining life of the refunded debt or the remaining life of the newly issued debt, whichever is shorter. The unamortized portion of the deferred amount on refunding is reported as a direct reduction to the carrying amount of the refunding debt.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use, either through enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulation of other governments.

**SOUTH PARK COUNTY SANITATION DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

Note B. Summary of Significant Accounting Policies (Continued)

Budget and Budgetary Accounting

The Board adopts a budget annually to be effective July 1st for the ensuing fiscal year for the District. The general manager of the Water Agency is authorized to transfer budgeted amounts within the District except for transfers between the major expense classes or transfers between capital assets and operating expenses. Such transfers require approval by the County Administrator and/or the Board.

Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Note C. Implementation of New Governmental Accounting Standard

Effective July 1, 2009 the District implemented GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, issued in June 2007. This statement establishes accounting and financial reporting requirements for intangible assets to reduce inconsistencies in the accounting and financial reporting of such assets among state and local governments. This statement also provides authoritative guidance that specifically addresses the nature of the intangible assets including internally generated intangible assets.

As a result of the implementation of GASB Statement No. 51, the District's entire balance reported as land as of June 30, 2009, has been reclassified and reported as intangible assets. The District's intangible assets are permanent easements.

Note D. Cash and Investments

The District follows the practice of pooling cash and investments with the Treasurer. The Investment Oversight Committee has regulatory oversight for all funds deposited into the Treasury Pool.

Investment Guidelines

The District's pooled cash and investments are invested pursuant to investment policy guidelines established by the Treasurer and approved by the Board. The objectives of the policy are, in order of priority: safety of capital, liquidity and maximum rate of return. The policy addresses the soundness of financial institutions in which the Treasurer will deposit funds, types of investment instruments as permitted by the California Government Code, and the percentage of the portfolio that may be invested in certain instruments with longer terms to maturity.

**SOUTH PARK COUNTY SANITATION DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

Note D. Cash and Investments (Continued)

Investment Guidelines (Continued)

Permitted investments include the following:

- U.S. Treasury and Federal Agency securities
- Bonds and notes issued by local agencies
- Registered state warrants and municipal notes and bonds
- Negotiable certificates of deposit
- Bankers' acceptances
- Commercial paper
- Medium-term corporate notes
- Local Agency Investment Fund (State Pool) deposits
- Repurchase agreements
- Reverse repurchase agreements
- Mutual funds and money market mutual funds
- Collateralized mortgage obligations
- Collateralized time deposits
- Joint power agreements
- Investment trust of California (Caltrust)

A copy of the County Investment Policy is available upon request from the County Treasurer at 585 Fiscal Drive, Room 100, Santa Rosa, California, 95403.

As of June 30, 2010, the District's investments consisted of \$7,811,107 in the Treasury Pool managed by the County Treasurer, which is not rated by credit rating agencies, and had a weighted average maturity of 486 days. The credit rating and other information regarding specific investments maintained in the Treasury pool as of June 30, 2010, are disclosed in the County's Comprehensive Annual Financial Report.

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value is to changes in market interest rates. As of June 30, 2010 all of the District's investments are in the Treasury Pool which is not subject to interest rate risk.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the County's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits and securities lending transactions:

**SOUTH PARK COUNTY SANITATION DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

Note D. Cash and Investments (Continued)

Custodial Credit Risk (Continued)

- The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by depository regulated under state law. The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.
- The California Government Code limits the total of all securities lending transactions to 20% of the fair value of the investment portfolio.

Investments in external investment pools and in open-end mutual funds are not exposed to custodial credit risk. As of June 30, 2010, all of the District's investments were in the County Treasury Pool and, are therefore, not exposed to custodial credit risk.

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The District follows the County's policy to purchase investments with the minimum ratings required by the California Government Code. The credit rating and other information regarding the Treasury Pool as of specific investments maintained in June 30, 2010 are disclosed in the County's Comprehensive Annual Financial Report.

**SOUTH PARK COUNTY SANITATION DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

Note E. Capital Assets

Capital asset activity for the fiscal year ended June 30, 2010 was as follows:

	July 1, 2009	Additions	Retirements	Transfers	June 30, 2010
Capital assets, not being depreciated					
Construction in progress	\$ 1,559,512	\$ 510,007	\$ -	\$ (1,411,604)	\$ 657,915
Intangible assets	71,574	285	-	-	71,859
Total capital assets not being depreciated	1,631,086	510,292	-	(1,411,604)	729,774
Capital assets being depreciated:					
Buildings and improvements	12,563,740	-	-	1,411,604	13,975,344
Less: accumulated depreciation	(3,506,568)	(253,715)	-	-	(3,760,283)
Total capital assets, being depreciated, net	9,057,172	(253,715)	-	1,411,604	10,215,061
Total capital assets, net	\$ 10,688,258	\$ 256,577	\$ -	\$ -	\$ 10,944,835

Depreciation expense amounted to \$253,715 for the fiscal year ended June 30, 2010.

The total amount of interest capitalized in connection with collection system construction projects during the fiscal year ended June 30, 2010 was \$74,388.

**SOUTH PARK COUNTY SANITATION DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

Note F. Long-Term Obligations

Revenue Bonds

The District issues bonds where the District pledges income derived from charges for services to pay debt service. The original amount of revenue bonds issued to finance construction projects for expanding existing wastewater collection system and constructing additional facilities was \$3,565,000, of which \$3,255,000 was refunded in September 2005. The bonds are payable solely from sanitation customer net revenues and are payable through 2027. Annual principal and interest payments are expected to require no more than 18% of net revenues. The total principal and interest outstanding on the bonds, with interest rates ranging from 2.8% - 5.0%, as of June 30, 2010 is \$2,810,000 and \$1,239,818, respectively. Principal and interest paid during the fiscal year ended June 30, 2010 and total customer net revenues were \$238,910 and \$1,300,923, respectively.

Revenue bond debt service requirements to maturity are as follows:

Fiscal Year Ending				
June 30,	Principal	Interest	Total	
2011	\$ 120,000	\$ 120,264	\$ 240,264	
2012	125,000	116,281	241,281	
2013	125,000	112,094	237,094	
2014	130,000	107,694	237,694	
2015	140,000	102,864	242,864	
2016-2020	765,000	429,543	1,194,543	
2021-2025	950,000	230,156	1,180,156	
2026-2027	455,000	20,922	475,922	
Total	\$ 2,810,000	\$ 1,239,818	\$ 4,049,818	

Changes in Long-Term Obligations

Long-term obligation activity for the fiscal year ended June 30, 2010 was as follows:

	July 1, 2009	Additions	Retirements	June 30, 2010	Due Within One Year
Revenue bonds	\$ 2,925,000	\$ -	\$ (115,000)	\$ 2,810,000	\$ 120,000
Less deferred amounts for:					
Original issue premium	58,527	-	(3,252)	55,275	3,252
Deferred amount on refunding	(258,067)	-	14,337	(243,730)	(14,337)
Total revenue bonds	\$ 2,725,460	\$ -	\$ (103,915)	\$ 2,621,545	\$ 108,915

**SOUTH PARK COUNTY SANITATION DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

Note G. Debt Defeasance

In September 2005, the District, through the Water Agency and the California Statewide Communities Development Authority, issued Water and Wastewater Revenue Bonds (Series 2005C) totaling \$3,250,000. The proceeds of the bonds were used to purchase U.S. government securities, which were deposited into an irrevocable trust with an escrow agent to advance refund the District's outstanding Series 2000B revenue bonds totaling \$3,255,000. As a result, the Series 2000B Revenue Bonds are considered defeased and the related liability is not reported in the District's financial statements. As of June 30, 2010, \$2,785,000 of the Series 2000B Revenue bonds was outstanding.

Note H. Related Party Transactions

The District is a special district under the Board, and as such, has the same board members as the County. Both the District and the Water Agency are component units of the County, and therefore, are considered related parties.

The District is managed by the Water Agency, which provides administration, engineering, operational, and maintenance services. The District does not incur any payroll expenses. The Water Agency allocates overhead costs to the District via the use of an overhead rate charged on labor applicable to the District. The overhead rate is reviewed periodically by management to determine its effectiveness. The District paid \$93,322 to the Water Agency for administrative support during the fiscal year ended June 30, 2010.

Note I. Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The District is covered by the County's self-insurance program, which is accounted for in the County's Risk Management Internal Service Fund. The District is covered under this program for general liability, auto liability, public employees' performance/dishonesty and property insurance.

The County maintains a self-insured retention of \$1,000,000 per occurrence for general and automobile liability. Excess liability coverage is maintained through participation in the California State Association of Counties, Excess Insurance Authority (CSAC-EIA) and Excess Liability Program. Limits of this coverage are \$ 15,000,000.

The County also maintains public employee faithful performance/employee dishonesty coverage through a joint-purchase program provided by National Union Fire Insurance Company and administered by CSAC-EIA with limits of \$10,000,000 and a \$25,000 deductible.

The County maintains "All Risk" property insurance including flood and earthquake through participation in the CSAC-EIA property insurance program. Limits of coverage are \$600,000,000 per occurrence including flood and \$80,000,000 per occurrence for earthquake. Deductibles for most perils are \$50,000 per occurrence, with flood at \$200,000 per county per occurrence and earthquake at 5% of total insured values per unit, per occurrence, subject to a \$500,000 minimum per occurrence. For losses within the deductible, the County maintains a deductible self-insured pool for losses in excess of \$5,000.

**SOUTH PARK COUNTY SANITATION DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

Note I. Risk Management (Continued)

The District pays an annual premium to the County for this insurance coverage. Settled claims have not exceeded this coverage for any of the past three fiscal years.

Note J. Commitments and Contingencies

Pending Litigation, Claims, and Assessments

In 2004, a property owner sued the City of Santa Rosa, the County, and the District, alleging that each public entity owns and operates sewer lines in the vicinity of the plaintiff's property and that the sewer lines have leaked, causing contamination to the plaintiff's property and to the groundwater beneath the plaintiff's property. The complaint was filed in May 2004. The plaintiffs subsequently dismissed their lawsuit in January 2005. However, because the site is still contaminated, there is the possibility that plaintiffs may re-file their action against the County and the District. No action from the North Coast Regional Water Quality Control Board has been taken on this matter in the last several years.

Other Regulatory Matters

The District is subject to Section VII of the Endangered Species Act. Section VII requires that all affected agencies, including the District, consult with fish and wildlife officials before performing any work which might disrupt or harm any endangered or threatened species or their habitat. This Act increases the possibility of threatened litigation from various environmental groups and individuals. The District is also subject to Section X of the Endangered Species Act which deals with habitat conservation planning.

Note K. Pollution Remediation

The District and the County entered into a Plan of Action with the North Coast Regional Quality Control Board (NC Regional Board) in 1999 to investigate a groundwater plume of halogenated volatile organic compounds (HVOC's) believed to have leaked from former dry cleaning operations and possibly using sewer pipes as a conduit. The investigation was completed in February 2002 at a cost of approximately \$1,250,000. Currently, the NC Regional Board is focusing on other potentially responsible parties (mainly oil companies) in connection with a petroleum hydrocarbon plume which is co-mingled with the HVOC plume. The District is working with the NC Regional Board to require other potentially responsible parties to conduct investigations of HVOC source areas on their properties. In this regard, the NC Regional Board sent out two information request/source investigation letters in late 2005 to owners of properties in the area which may be a source of HVOCs. The District and the County may be held responsible for conducting remediation of the plume. In such event, substantial additional costs may be incurred in connection with the remedial action. In addition, negotiation of a clean-up strategy will result in costs from technical and legal consultants. As of June 30, 2010, the District has estimated a liability of \$1,297,500 for potential remediation activities using the expected cash flow technique which measures the liability as the sum of probability-weighted amounts in a range of possible estimated amounts. The District did not perform any pollution remediation activity during the fiscal year ended June 30, 2010, as the investigation to identify responsible parties has not been concluded.



Board of Directors
South Park County Sanitation District
Santa Rosa, California

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH *GOVERNMENT AUDITING STANDARDS***

We have audited the basic financial statements of South Park County Sanitation District (District) as of and for the fiscal year ended June 30, 2010, and have issued our report thereon dated November 4, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended for the information of the Board of Directors and District management and is not intended to be and should not be used by anyone other than these specified parties.

Maclean Gini & O'Connell LLP

Certified Public Accountants

Sacramento, California
November 4, 2010